

# Creative Scotland and Creative Scotland National Lottery Distribution Fund

2019/20 Annual Audit Report



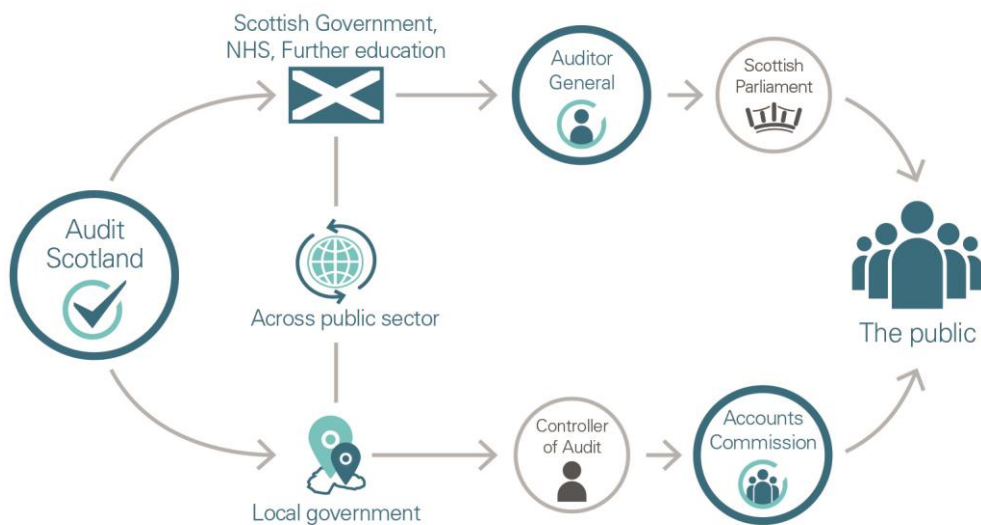
Prepared for the Creative Scotland and Creative Scotland National Lottery Distribution Fund and  
the Auditor General for Scotland

26 November 2020

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Key messages

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## 2019/20 annual report and accounts

- 1 The financial statements give a true and fair view of the state of affairs of Creative Scotland and its group and Creative Scotland National Lottery Distribution Fund as at 31 March 2020 and of the net expenditure for the year then ended. The annual report and accounts have been properly prepared in accordance with the financial reporting framework.
- 2 Creative Scotland prepared group accounts for the first time in 2019/20 to incorporate the financial position of Shorestage Ltd, previously known as Screen Scotland Ltd.
- 3 Audit arrangements were impacted by the pandemic and this included the availability of some audit documentation. However, were able to obtain sufficient evidence to gain the assurances we required.

## Financial management

- 4 Creative Scotland has appropriate and effective financial management arrangements in place.
- 5 Due to the impacts of Covid-19 we have been unable to perform walkthrough tests over a number of key controls during the year and our audit approach has had to adapt as a result.
- 6 Internal audit recommendations are not consistently addressed within agreed timescales.
- 7 Overall, Creative Scotland has appropriate arrangements in place for the prevention and detection of fraud and corruption, however, some internal policies require updating and staff may benefit from updated procurement fraud related training.

## Financial sustainability

- 8 Creative Scotland prepares an annual financial plan and produces three-year financial forecasts as part of the budget setting process; however, no medium-term or longer-term financial plan has been developed.
- 9 Creative Scotland has implemented funding criteria amendments and engaged in the Bridging Bursary and Hardship Fund to support those experiencing difficulty as a result of Covid-19. It is monitoring its own additional Covid-19 costs through routine monthly returns to the Scottish Government.

## Governance and transparency

- 10 Creative Scotland has appropriate and effective governance arrangements in place.
- 11 Revised governance arrangements implemented as a result of Covid-19 were reasonable and appropriate.

**12** There is scope for Creative Scotland to improve the transparency of public information reporting.

**13** The Performance Report was prepared in line with the reduced FReM requirements for 2019/20.

## **Value for money**

**14** Creative Scotland considers best value duties through its Annual Performance Review.

**15** Creative Scotland should continue to progress the performance reporting enhancements agreed by the Audit and Risk Committee in March 2020 for the Annual Report and Accounts in 2020/21.

**16** Creative Scotland complies with the Equality Act 2010 and is fully engaged with Equalities issues.

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# Introduction

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1. This report summarises the findings from our 2019/20 audit of Creative Scotland and Creative Scotland National Lottery Distribution Fund.

2. The scope of our audit was set out in our Annual Audit Plan presented to the Audit and Risk Committee on 5 March 2020. This report comprises the findings from:

- an audit of the body's annual report and accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

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## Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

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3. The main elements of our audit work in 2019/20 have been:

- a review of Creative Scotland and National Lottery Distribution Fund's key financial systems
- an audit of the body's 2019/20 annual report and accounts including the issue of an independent auditor's report setting out my opinions
- consideration of the four audit dimensions.

4. Subsequent to the publication of the Annual Audit Plan, in common with all public bodies, Creative Scotland has had to respond to the global coronavirus pandemic. This impacted on the final month of the year and will continue to have

significant impact into financial year 2020/21. The pandemic has significantly impacted on the arts, creative and screen industries due to social distancing requirements, lockdown restrictions and venue closures. The financial and practical implications of the pandemic are likely to continue to be experienced in the medium to long term. Our planned audit work has had to adapt to new emerging risks as they relate to the audit of the financial statements and the wider dimensions of audit.

## Adding value through the audit

5. We add value to the body through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- maintaining regular dialogue with senior finance officers as the strategic and operational impact of Covid-19 developed. We shared learning from our experiences working with other bodies and agreed a clear approach for the remote audit of the 2019/20 accounts within a revised accounts and audit timetable
- providing clear recommendations around FReM compliant disclosures of consolidated financial information within the performance report of Creative Scotland
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Responsibilities and reporting

6. Creative Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the account's direction from Scottish Ministers.

7. Creative Scotland is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable the board to successfully deliver its objectives.

8. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

9. This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

10. Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officer(s) and dates for implementation. It also includes any outstanding actions from last year and progress against these.

## Auditor Independence

**11.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

**12.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2019/20 audit fee of £45,800 for Creative Scotland and £23,920 for Creative Scotland National Lottery Distribution Fund as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**13.** This report is addressed to Creative Scotland, Creative Scotland National Lottery Distribution Fund and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

**14.** We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.



# Part 1

## Audit of 2019/20 annual report and accounts



### Main judgements

The financial statements give a true and fair view of the state of affairs of Creative Scotland and its group and Creative Scotland National Lottery Distribution Fund as at 31 March 2020 and of the net expenditure for the year then ended. The annual report and accounts have been properly prepared in accordance with the financial reporting framework.

Creative Scotland prepared group accounts for the first time in 2019/20 to incorporate the financial position of Shorestage Ltd, previously known as Screen Scotland Ltd.

Audit arrangements were impacted by the pandemic and this included the availability of some audit documentation. However, we were able to obtain sufficient evidence to gain the assurances we required.

The annual report and accounts are the principal means of accounting for the stewardship of resources and performance.

### Our audit opinions on the annual report and accounts are unmodified

15. The annual report and accounts for the year ended 31 March 2020 were approved by the board on 26 November 2020. We reported within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework;
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

### Audit arrangements were impacted by the pandemic

16. Our planned audit work had to adapt to new emerging risks as they relate to the audit of the financial statements and the wider dimensions of audit. Remote working for both the audit team and Creative Scotland staff brought additional challenges to the audit process. New ways of working and communicating with each other had to be implemented in order to deliver an efficient and effective audit that met our quality standards.

17. The completeness and accuracy of accounting records and the extent of information and explanations that we required for our audit were affected by the COVID-19 outbreak. Examples include:

- confirming the existence of assets
- availability of hard copy documentation held in the office.

**18.** However, despite these challenges around accounting records we have concluded that sufficient audit evidence has been obtained and no modification is required to our audit opinions.

### **The accounting framework was changed due to the COVID-19 pandemic**

**19.** An addendum to the 2019/20 Government Financial Reporting Manual (FReM) was issued permitting, but not requiring, bodies to omit the performance analysis section from the Performance Report. In addition, where relevant performance information has already been published elsewhere, and unaudited information otherwise required to be included in the Accountability Report is already published elsewhere, bodies were permitted to refer to the relevant publication rather than including the information within the annual report.

**20.** Creative Scotland chose to make use of these amendments to the required information and prepared the annual report and accounts in accordance with the reduced FReM requirements.

### **Whole of Government Accounts**

**21.** In accordance with the WGA guidance we plan to complete the required assurance statement and submit to the National Audit Office (NAO) by the deadline of 4 December 2020.

### **Creative Scotland prepared group accounts for the first time**

**22.** Screen Scotland Ltd is a wholly owned subsidiary set up in December 2018 for the sole purpose of leasing the film studio. It was renamed Shorestage Limited on 1 September 2020.

**23.** The first financial period from incorporation ended on 31 March 2020. Creative Scotland has consolidated the financial position of Shorestage Ltd into the accounts for the first time in 2019/20. We have audited the group statements and identified no issues to report.

### **The annual report and accounts were signed off in line with the revised timetable**

**24.** The unaudited annual report and accounts were submitted to audit on 21 September 2020 in line with our revised audit timetable. The working papers provided for audit were of an appropriate standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

**25.** On review of the annual report and accounts we noted that the Annual Governance Statement had not been updated from the prior year. Good practice arrangements would be for the narrative parts of the Annual Report and Accounts to be complete and provided to audit at the same time as the unaudited financial statements to ensure efficient year-end closedown and reporting arrangements and an effective and timely audit process.

**26.** Our review of the annual report and accounts noted an increase in presentational issues. We also noted areas where work in relation to the annual report and accounts preparation could have been undertaken earlier, for example, completion of the board member register of interest process and notification to board members of the disclosures in the remuneration report. However, we aware that this has been an exceptionally challenging period and these arrangements

were impacted by finance officers increased workload in supporting the organisation activity around providing wider sector support as well as the challenges of remote working.

**27.** Finance officers should consider developing a project plan for the preparation and drafting of the 2020/21 annual report and accounts if remote working arrangements continue. ([Appendix 1 Recommendation 1](#)).

## Overall materiality is £660,000 for Creative Scotland and £254,000 for the National Lottery Distribution Fund

**28.** The assessment of what is material is a matter of professional judgement. It involves considering both the amount and the nature of a misstatement in the financial statements.

**29.** On receipt of the unaudited annual report and accounts we reviewed and re-calculated our materiality calculations and concluded that they remained appropriate.

## Exhibit 2 Materiality values

Materiality level	Creative Scotland	National Lottery Distribution Fund
Overall materiality	£0.660 million	£0.254 million
Performance materiality	£0.395 million	£0.153 million
Reporting threshold	£33 thousand	£13 thousand

Source: Creative Scotland and Creative Scotland National Lottery Distribution Fund Annual Audit Plan 2019/20

## Appendix 2 identifies the main risks of material misstatement and our audit work to address these

**30.** [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the audit team were directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

**31.** At the time of drafting the annual audit report, audit information remained outstanding. This has prevented us from being able to conclude on the risks of material misstatement. Information outstanding includes grant contracts and the walk through of the grant management system controls.




## Significant findings to report on the annual report and accounts


**32.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices.

**33.** The significant findings from our work are summarised in [Exhibit 3](#) and we have no matters to report around the qualitative aspects of Creative Scotland's accounting practices. Where a finding has resulted in a recommendation to management, a cross reference to the [Action Plan in Appendix 1](#) has been included.

## Exhibit 3

### Significant findings from the audit of financial statements

Issue	Resolution
<p><b>1. Annual Governance Statement</b></p> <p>The annual accounts and report provided to audit included the 2018/19 annual governance statement. There was an increased number of presentational issues within the unaudited annual report and accounts in comparison to previous years but note the challenges officers faced around a remote audit.</p>	<p>An updated 2019/20 report was provided to audit on 9 November 2020.</p> <p>We would recommend finance officers develop a project plan in case remote working arrangements remain in place for 2020/21.</p> <p> <a href="#">Recommendation 1</a> (refer <a href="#">Appendix 1</a>, action plan)</p>
<p><b>2. Pension</b></p> <p>In January 2017 an employment tribunal ruled that a group of claimant judges had been subject to age discrimination when they were transferred to a new career average scheme, known widely as the McCloud case. On 16 July 2020, the UK Government released a consultation document on the remedy to the issues. This identified a proposed treatment for pension members affected.</p> <p>An updated valuation was obtained and an adjustment of £42k processed through the accounts.</p>	<p>An adjustment has been made to the Annual Report and Accounts.</p>
<p><b>3. Asset existence</b></p> <p>Our planned audit approach includes work to obtain assurances around the existence of assets. In March 2020 Creative Scotland purchased laptops (costing £550 each) to enable staff to work remotely whilst the offices were closed. We planned to select a sample of laptop serial numbers and request photographic evidence to confirm existence. We were advised that no record has been created of what laptop is held by each employee as they were shipped directly to employees from the warehouse. We have not been able to obtain assurance around the existence of these assets.</p>	<p>Procedures should be established to record all assets owned by Creative Scotland. Asset records should include the make and model of the asset and the unique serial number identifier along with details of portable assets held by staff working from home.</p> <p> <a href="#">Recommendation 2</a> (refer <a href="#">Appendix 1</a>, action plan)</p>
<p><b>4. Development Funds held in locked box</b></p> <p>The National Lottery Distribution Fund have a year-end trade receivable and payable of £50,844 relating to development funds in a locked box. These funds are set out in the funding agreement along with the conditions of the funds. The development funds are deposited into a locked box by the producer and are returned to the National Lottery Fund to be held as development funds for the producer to access in the future.</p> <p>The year-end receivable reviewed as part of our sample testing has been raised via invoice to a third party and not the organisation/producer who the</p>	<p>Officers should ensure that invoices are raised to the correct individual or organisation. Consideration should also be given as to whether funding decisions should be influenced by outstanding issues from previous funding agreements.</p> <p> <a href="#">Recommendation 3</a> (refer <a href="#">Appendix 1</a>, action plan)</p>

Issue	Resolution
<p>National Lottery Distribution Fund has the funding contract with.</p> <p>From discussions with officers it has been confirmed the producer has received film award funding in 2019/20. Discussions with officers have advised that new funding applications would not be negatively impacted by locked box funds not being returned.</p>	
<p><b>5. Consolidated financial position of Creative Scotland and National Lottery Distribution Fund</b></p> <p>The Creative Scotland accounts includes a consolidated report within the performance report which aims to show the consolidated financial position of Creative Scotland and the National Lottery Distribution Fund. As discussed with officers at Audit and Risk Committee meetings, this disclosure requires appropriate narrative to explain to the reader of the accounts the differences between the two sets of financial statements, for example, the different funding streams; differences between funding and income; reserve positions and the nature of intra-group transactions.</p> <p>We are awaiting sight of the updated disclosure.</p>	<p>Statement revised and appropriate narrative included.</p>
<p><b>6. General Data Protection Requirements</b></p> <p>To comply with the requirements of General Data Protection Requirements (GDPR), employers are required to advise individuals in advance of personal data such as salaries and pensions being disclosed. During the audit process, we noted that this notification had been sent to the senior leadership team but not to board members as the register of interest process was still underway. The notification had still not been issued to all individuals disclosed in the unaudited remuneration report at the time of the audit clearance meeting on 4 November 2020.</p>	<p>Board members have been notified of the personal data to be included within the annual report and accounts.</p>
<p><b>7. Untaken leave accrual</b></p> <p>IAS 19 states that ‘when an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service: (a) as a liability (accrued expense), after deducting any amount already paid’.</p> <p>Audit Scotland technical guidance note requires auditors to evaluate whether the untaken leave accrual includes employer’s national insurance and pension contributions as well as salary costs.</p> <p>The calculation of untaken leave within the Creative Scotland accounts deducts employees holiday entitlement from the available working days which increases the daily annual rate. Furthermore, the</p>	<p>The untaken leave accrual should be calculated in line with appropriate technical guidance.</p> <p> <b>Recommendation 4</b> (refer <a href="#">Appendix 1</a>, action plan)</p>

Issue	Resolution
accrual calculation does not take account of national insurance and pension costs.	

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Source: Audit Scotland

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## **No identified misstatements above our clearly trivial threshold were identified**

**34.** We did not identify any material misstatements above our clearly trivial threshold. Two misstatements below clearly trivial were identified. These relate to expenditure paid out in 2019/20 which should have been accrued for in 2018/19 (£27K) and the incorrect methodology applied to the calculation of the untaken leave accrual (approx. £20k).

## **Progress has made on prior year recommendations**

**35.** Creative Scotland has made progress implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

# Part 2

## Financial management



### Main judgements

**Creative Scotland has appropriate and effective financial management arrangements in place.**

**Due to the impacts of Covid-19 we have been unable to perform walkthrough tests over a number of key controls during the year and our audit approach has had to adapt as a result.**

**Internal audit recommendations are not consistently addressed within agreed timescales.**

**Overall, Creative Scotland has appropriate arrangements in place for the prevention and detection of fraud and corruption, however, some internal policies require updating and staff may benefit from updated procurement fraud related training.**

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

### Creative Scotland and Creative Scotland National Lottery Distribution Fund operated within budget in 2019/20

**36.** The main financial objective for Creative Scotland is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

**37.** Creative Scotland's original budget for 2019/20 was £60.178 million. This did not include the prior year allocation that Scottish Government agreed would be carried forward to the 2019/20 financial year. This means that total funding received during 2019/20 was £65.330 million resulting in a year-end underspend against budget of £4.940 million. We note that some additional cash grant-in-aid provided for the impact of COVID-19 and the Youth Music Initiative Access Fund awards were delayed until the 2020/21 financial year. The general fund reserve balance is a surplus of £1.273 million as at 31 March 2020.

**38.** Creative Scotland National Lottery Distribution Fund has reported income of £32.282 million and expenditure of £25.390 million resulting in a surplus of £6.892 million in 2019/20, an £8.568 million variance on the budgeted deficit of £1.676 million. The variance is mainly attributable to additional National Lottery proceeds of £3.8 million being received due to improved sales figures coinciding with the 25th anniversary of the National Lottery and £3 million of Screen Scotland funding carried forward to 2020/21 to support the response to Covid-19.

### Budget process was appropriate

**39.** We reviewed Creative Scotland's budgetary processes and budget monitoring arrangements during 2019/20. The 2019/20 budget was scrutinised and discussed at the 6 March 2019 Finance & General Purposes committee before being approved by the Board on 28 March 2019. Management accounts were prepared

monthly and reviewed by the Senior Leadership Team. Budgetary updates were also taken to meetings of the Finance & General Purposes committee.

**40.** From our review of management account reports and committee papers we have confirmed that senior management and members receive regular, timely and up to date information on the financial position of Creative Scotland and the National Lottery Distribution Fund. The reports provide detailed information including forecasts of expenditure, comparisons of budget against actual spend and high-level explanations of variances. Creative Scotland has appropriate budgetary monitoring and control arrangements in place that allow members and officers to carry out effective scrutiny of finances.

**41.** We observed that senior management and members receive regular and accurate financial information on the Creative Scotland and National Lottery Distribution Fund financial position. We conclude that appropriate budget setting and monitoring arrangements are in place.

### **Internal audit recommendations require prompt action**

**42.** We reviewed Creative Scotland's internal audit recommendations in accordance with international Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could use the work of internal audit. We have taken cognisance of the internal audit reviews on the Grant Management System and Financial – Purchasing, Creditors and Procurement and Compliance with Expenses Policy. We note that the Financial report detailed 6 significant risks to be addressed by management.

**43.** In 2017/18 and 2018/19 we raised the importance of addressing internal audit recommendations in a timely manner. In February 2020 internal audit noted limited progress had been made in implementing the previous internal audit recommendations, which had reached their target completion date. The report advised that 45 recommendations were past their completion date. 23 were fully implemented, 13 were partially implemented and 7 were categorised as little or no progress. A further two recommendations were considered but not implemented.



#### **Recommendation 5**

**Officers should act to ensure that Internal Audit recommendations are actioned in accordance with agreed timescales.**

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### **We were unable to assess whether the Financial systems of internal control are operating effectively**

**44.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that the body has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**45.** We engage in a fully substantive approach for Creative Scotland. This means that most of our testing is performed over the figures within the annual report and accounts with no detailed controls testing performed. Instead we complete initial systems reviews over the key financial systems and perform walkthrough tests over the key controls identified from these reviews.

**46.** During our 2019/20 interim work we attempted to perform initial systems reviews and walkthrough testing over the Payroll, General Ledger and Grant Management systems. As a result of Covid-19 we were unable to perform a number of these walkthroughs due to most of the evidence we required being kept only in hard copy within the Creative Scotland office. We are therefore unable to



provide an overall conclusion as to the effectiveness of internal control operations during 2019/20.

**47.** As a result of the above we amended our audit approach during the year to increase substantive testing over areas not addressed during interim and where this was not possible, we have relied on work performed and assurances gained in prior years.

**48.** We are aware that Creative Scotland is in the process of developing and implementing additional and amended controls as a result of Covid-19. This includes modifying Bankline procedures; adapting finance policies and controls for home working and implementing changes to authorisation methods. We will consider and review the appropriateness and effectiveness of these as part of our 2020/21 audit. We are aware that internal audit intends to review the revised controls in place as part of their 2020/21 audit plan and we will consider and rely on this work where possible.

### **Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate**

**49.** Creative Scotland is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities. Furthermore, the Board is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

**50.** We have reviewed the arrangements in place to maintain standards of conduct including the Code of Conduct for Members, Fraud Management, Whistleblowing, Anti-bribery and staff Gifts and Hospitality policies. There are established procedures in place for preventing and detecting any breaches of these standards including any instances of corruption.

**51.** Whilst we can conclude overall that appropriate arrangements are in place for the prevention and detection of fraud, error and irregularities, we are aware from the Policy and Review timetable reported at the August 2019 Audit and Risk Committee that the Fraud Management policy was due to be updated in November 2019. Neither the Fraud Management policy nor the staff Gifts and Hospitality policy have been updated since 2017.



#### **Recommendation 6**

**Policies relating to the prevention and detection of fraud and corruption should be reviewed and updated on a regular basis to ensure they adequately address the evolving nature of risk relating to fraud and corruption.**

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### **Arrangements for preventing fraud and corruption in the procurement function are appropriate**

**52.** Our consideration of financial management includes evaluating the arrangements in place for preventing and detecting fraud and corruption. Instances of fraud and corruption can be particularly prevalent in the procurement function. We carried out an assessment of the arrangements in place at Creative Scotland to prevent fraud and corruption in the procurement function.

**53.** Creative Scotland's total regulated procurement spend per annum falls below £5 million meaning it is not legally obliged to produce an annual procurement report in accordance with the Procurement Reform (Scotland) Act. During 2019, Internal Audit performed an Expenditure and Procurement review. The review identified several strengths as well as weaknesses and suggested points for action. The review concluded overall that the net risk of fraud in the procurement process

is “green”. It will be important however that Creative Scotland implement the suggested actions raised.

**54.** We can conclude that Creative Scotland has established appropriate financial and procurement procedures. This includes regular reviews of financial management reports comparing actual performance against forecast and appropriate administrative procedures, including segregation of duties. Appropriate Fraud Management, Whistleblowing and Gifts and Hospitality policies are in place, however, as stated above the Fraud Management and Gifts and Hospitality policy have not been updated since 2017. In addition, it has been some time since training over procurement fraud related issues has been provided to staff and planned training during 2019/20 was not delivered due to Covid-19. It is important that staff receive regular updates and training on procurement fraud related issues, particularly given the changing working landscape as a result of Covid-19.



### Recommendation 6

**Staff should be provided with relevant and up to date procurement fraud related training.**

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# Part 3

## Financial sustainability



### Main judgements

**Creative Scotland prepares an annual financial plan and produces three-year financial forecasts as part of the budget setting process; however, no medium-term or longer-term financial plan has been developed.**

**Creative Scotland has implemented funding criteria amendments and engaged in the Bridging Bursary and Hardship Fund to support those experiencing difficulty as a result of Covid-19. It is monitoring its own additional Covid-19 costs through routine monthly returns to the Scottish Government.**

Financial sustainability looks forward to the medium and longer term to consider whether a body is planning effectively to continue to deliver its services or the way in which they should be delivered.

### Creative Scotland prepares three-year budget forecasts but is yet to develop a medium or longer-term financial plan

**55.** Creative Scotland has not yet developed a medium-term or longer-term financial plan. Creative Scotland prepares an annual financial plan and prepares three-year financial forecasts within budget setting papers. The financial budgets provide high level summaries of anticipated position including projections for income, grants and operating costs.

**56.** Creative Scotland's grant in aid budget is included within the Culture, Europe and External Affairs portfolio. The majority of Creative Scotland's overall budget is authorised through the Budget Act and any subsequent revisions. As such the budget is updated annually when funding is confirmed by the Scottish Government and this is one of the main constraints faced by Creative Scotland in preparing medium- and longer-term financial planning documents. Creative Scotland also receives funding from the UK National lottery. The totals are aggregated, and budgets proposed for different streams of expenditure.

**57.** The 2020/21 budget position forecasts a balanced Creative Scotland grant-in-aid position over the three-year forecasts to 2023/24. National Lottery income is projected to reduce by 5% to £29.0 million in 2020/21 and then remain static for future years. This reduction is due to the time-limited nature of the income boost in 2019/20 related to the 25-year anniversary of the National Lottery and ongoing economic uncertainty due to Brexit.

**58.** Creative Scotland may benefit from developing and implementing a medium-term and longer-term financial plan, particularly given the forecasted negative reserve position of the National Lottery Fund. In the absence of longer-term financial plans there is a risk that Creative Scotland may not be able to direct and control its finances efficiently.



## Recommendation 7

### **Creative Scotland should consider developing and implementing medium to longer-term financial plans.**

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#### **Creative Scotland are engaged in dealing with financial impacts of Covid-19**

**59.** During the year additional cash grant-in-aid of £0.9 million was provided by the Scottish Government to provide for the impact of Covid-19. Whilst Creative Scotland is not providing the Scottish Government with any specific returns on the additional costs and savings incurred as a result of Covid-19, costs are being monitored and considered as part of the overall routine monthly returns provided.

**60.** On the 17th March 2020, Creative Scotland made an announcement advising recipients of existing awards to explore whether activity could be deferred until later in the year, but confirmed that all funding awards already committed would be honoured, regardless of whether the funded activity was cancelled, reduced or rescheduled. This also covered the interaction of Creative Scotland funding with the Job Retention Scheme. Creative Scotland also issued amended Open Project Funding criteria and guidance was provided for both individuals and organisations.

**61.** In addition, Creative Scotland launched The Creative Scotland and Screen Scotland Bridging Bursary. The overall budget for this fund is £4 million and is to support freelance artists and freelance creative practitioners working in the not-for-profit sector in Scotland who were experiencing immediate financial difficulty due to the loss of income as a result of the Covid-19 pandemic. The aim is to support and prioritise those most in need at this time, particularly those who are least likely to benefit from the recently announced Job Retention Scheme and Self Employment Income Support scheme.

**62.** Creative Scotland is also part of the partnership managing the £20 million Creative, Tourism & Hospitality Enterprises Hardship Fund. The fund aims to support companies in tourism, creative industries and hospitality that are experiencing hardship and that are ineligible for other Covid-19 Government grant support.

**63.** The impact of Covid-19 on Creative Scotland's operating costs in the short term has been minimal. However, the arrangements put in place to support individuals and organisations through bursary arrangements and funding streams has been important to the sector. The medium to longer term financial impact of the pandemic is still developing.

# Part 4

## Governance and transparency



### Main judgements

**Creative Scotland has appropriate and effective governance arrangements in place.**

**Revised governance arrangements implemented as a result of Covid-19 were reasonable and appropriate.**

**There is scope for Creative Scotland to improve the transparency of public information reporting.**

**The Performance Report was prepared in line with the reduced FReM requirements for 2019/20.**

Governance and transparency are concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

### Overall governance and transparency arrangements were appropriate

**64.** The Creative Scotland Board is made up of members who are appointed by, and accountable to, the Scottish Government and have corporate responsibility for ensuring that Creative Scotland fulfils its aims and objectives, including delivery of its strategic objectives. The Board is required to meet at least four times a year in accordance with its Terms of Reference. The Board met on six occasions during 2019/20. The Board is supported by four subcommittees: -the Audit and Risk Committee; the Finance & General Purposes Committee, the Nominations Committee and the Screen Committee.

**65.** During 2019/20, in order to further assess the effectiveness and transparency of committee arrangements, we planned to attend the Board and Finance and General Purposes Committee as an observer. Due to Covid-19 we were asked to defer attendance until the 2020/21 audit. We plan to observe these committees during our 2020/21 audit and will report our findings within our 2020/21 Annual Audit report.

**66.** We have reviewed the minutes and document packs submitted to the Board and Finance and General Purposes Committee throughout the year. The papers are detailed and comprehensive to allow for effective decision making and scrutiny of performance.

**67.** We attend the Audit and Risk Committee meetings and can conclude that papers presented are of sufficient detail to provide members with the necessary information to understand issues and support scrutiny. The reports are generally provided to members in a timely manner to enable review in advance of meetings. Furthermore, we conclude that members are sufficiently engaged during meetings and provide effective scrutiny and challenge.

**68.** Overall arrangements and standards of conduct including those for the prevention and detection of fraud, error, bribery and corruption have been concluded appropriate, however, as detailed within the financial management section of this report, some policies require updating.

**69.** We conclude that overall governance arrangements are appropriate and effective in supporting governance and accountability.

### **The Covid-19 pandemic had a significant impact on governance arrangements from March 2020**

**70.** The impact of Covid-19 from March 2020 has resulted in the establishment of revised governance arrangements. These allowed Creative Scotland to manage the unprecedented nature of the scale of the challenge to its staff and operations. Some of the revised governance arrangements include:

- Committee meetings are now held virtually via Teams
- Weekly group calls/meetings between the Chief Executive and the non-executive directors to keep them up to date with developments
- Additional meetings between the Chief Executive and the Chair of the Board
- Risk register updated to include consideration of Covid-19 related risks.

**71.** The revised arrangements appear reasonable and appropriate in supporting good governance and accountability.

### **Openness and transparency**

**72.** There continues to be an increasing focus on demonstrating the best use of public money. Openness and transparency in how a body operates and makes decisions is key to supporting understanding and scrutiny. Transparency means that the public have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources such as money, people and assets.

**73.** The Annual Plan and Annual Performance Review are published each year and can be accessed from the Creative Scotland website. The 2019/20 Annual Plan was approved at the March 2019 Board meeting.

**74.** Board and other committee meetings are held in private. Creative Scotland publishes approved Board minutes on the website, but no Board or other committee papers are available. With increasing expectations for openness in the conduct of public business, Creative Scotland should continue to regularly revisit this area to ensure the public has access to relevant information.

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### **Recommendation 8**

**There is scope for Creative Scotland to improve transparency by making further Board and committee information available to the public.**

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# Part 5

## Value for money



### Main judgements

**Creative Scotland considers best value duties through its Annual Performance Review.**

**Creative Scotland should continue to progress the performance reporting enhancements agreed by the Audit and Risk Committee in March 2020 for the Annual Report and Accounts in 2020/21.**

**Creative Scotland complies with the Equality Act 2010 and is fully engaged with Equalities issues.**

Value for money is concerned with using resources effectively and continually improving services.

### Creative Scotland consider best value through the Annual Performance Review

**75.** *Ministerial guidance to Accountable Officers* for public bodies and the *Scottish Public Finance Manual* (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key principles of best value and the requirement to have a systematic approach to self-evaluation and continuous improvement.

**76.** The main way in which Creative Scotland measures the achievement of its best value duties is through the Annual Performance Review. The review provides an assessment of performance during the year including an examination of funding; equalities, diversity and inclusion, environment, wellbeing and partnership working. Whilst the reviews do not specifically mention Best Value, they cover a wide range of areas that align with the SPFM's Best Value Characteristics of Vision and Leadership, Governance and Accountability, use of resources, Partnership and collaborative working, Working with Communities, Sustainability and Fairness and equality. The 2019/20 Annual Performance Review has not yet been published and as such we have been unable to consider this as part of our audit work.

### Performance management

**77.** The performance of Creative Scotland is monitored by the Board and supporting committees. The Finance & General Purposes committee assess financial performance through receipt of regular management reports and the Audit and Risk Committee receive reports from Internal Audit that evaluate the systems of internal control.

**78.** Creative Scotland has a 10-year plan 'Unlocking Talent Embracing Ambition' which sets out five ambitions. Each ambition has priorities which are aligned to the Scottish Government's National Performance Framework. Creative Scotland's Annual plan sets out the planned activity to support the delivery of these ambitions and priorities.

**79.** In December of each year, the Annual Review of Performance is published. Within this report, performance indicators are measured against baseline measures. Targets are not set for most performance indicators thus limiting the scope to assess whether ambitions and priorities are being achieved, although we do note that there are performance indicators in respect of service delivery.

## **Performance measures reflected in the annual report and accounts**

**80.** As concluded in the prior year annual audit report, Creative Scotland should build on this approach and develop a range of targets which could demonstrate progress against the performance indicators.

**81.** The March 2020 Audit and Risk Committee discussed the organisations commitment to increase the level of performance reporting within the annual report and accounts from 5 key performance indicators to 17. In response to the FReM Addendum issued, and in recognition of the workload faced by the organisation, the June Audit and Risk Committee decided to defer this increase in performance reporting to 2020/21. Therefore, a decision was made to continue to report on the 5 key performance indicators included in the prior year accounts as follows:

- The number of organisations in receipt of Creative Scotland Regular Funding and value of funding by type of organisation, core activity, primary art form and geographic location
- The range and type of work by organisations and individual practitioners in receipt of Creative Scotland Targeted and Open Project Funding and value of funding by core activity, primary art form and geographic location
- % of applications processed within agreed timeframe
- % of initial award payments made within 10 working days of exchange of contracts
- % of valid invoices paid within 10 working days.

**82.** We plan to review key performance indicators in 2020/21 and would recommend that the enhancements to performance reporting agreed at the March 2020 Audit and Risk Committee are progressed and incorporated into the annual report and accounts for the 2020/21.

## **Creative Scotland complies with the Equality Act 2010 and is engaged with Equalities issues**

**83.** Public sector bodies should be able to demonstrate how they are fulfilling the general equality duty under the Equality Act 2010. The 2017-2019 Equalities Mainstreaming Report was approved by the Board in June 2019, just after the April 2019 deadline and is available on the website. Creative Scotland's current Equality Outcomes cover the period 2017-2021 and work has commenced on developing the new outcomes for publication in April 2021. The Board is engaged with Equalities issues, has nominated a Diversity Champion and is forming an equalities subgroup, made up of three Board members, including the Diversity Champion.

**84.** Equalities considerations have been mainstreamed across Creative Scotland's funding programmes, activities, policies and procedures. All Regularly Funded Organisations (RFOs) must provide and implement an Equality Action Plan as part of their contract with Creative Scotland. Equality, Diversity and Inclusion (EDI) Action Plans are also key documentation that must be provided with their contract. A toolkit has been published to help RFOs devise and deliver their Equality Action Plans. RFOs also report on EDI statistics through a mandatory Annual Statistical Submission. Equalities consideration is embedded within project funding programmes and uptake is monitored by diversity characteristics. There are specific Targeted Funds for EDI which support delivery of strategic initiatives.



- 85.** Creative Scotland has an EDI team who have responsibility for providing leadership, specialist advice, specialist knowledge and expertise on strategic activities. Team members participate in working groups and projects both across the organisation and externally, with a view to embedding equalities in the design, implementation and monitoring of Creative Scotland's activities, policies and programmes. There is also an internal Equalities Working Group who share knowledge and collate feedback from teams across the organisation.
- 86.** Creative Scotland intend to implement an external Equalities Advisory Group by January 2021. This working group will advise on relationships development, information gathering and the sharing of good practice. It is envisaged that the membership will be inter-sectional and cross disciplinary. In addition, a comprehensive EDI training programme has been developed and will be delivered from January 2021 onwards. This will provide an up to date, externally delivered overview of equality strands, diversity characteristics and good practice. It will also include a range of creative practitioners and leaders from diverse fields.
- 87.** Equality impact assessments (EIAs) have historically not been consistently performed. As a result, the Equality Impact Assessment process was refreshed and relaunched during the 2020/21 financial year to reflect good practice and more closely respond to the requirements of Specific Equality duties. The EIA form and guidance were updated, and staff training and interactive workshops delivered. All major policies, activities and programmes are now subject to screening and depending on the outcome, a full EIA is performed. The refreshed EIA process and guidance is to be used to inform the design of funding programmes, policies and activities.
- 88.** Creative Scotland also consider EDI as part of their performance information. Each employee at Creative Scotland has, as their core objective, an EDI performance objective, which is tailored for their specific job role and responsibilities, ensuring that equalities are embedded in their ongoing work. Progress on this objective is monitored and reviewed as part of their Performance Management process. In addition, the Screen Scotland Business Plan includes specific diversity Key Performance Indicators. Creative Scotland are considering more specific performance indicators within the next iteration of Equality Outcomes.
- 89.** We conclude that Creative Scotland complies with the Equality Act 2010 and is engaged with Equalities issues.

### **National performance audit reports**

- 90.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2019/20 several reports were published which are of direct interest to Creative Scotland. These are outlined in [Appendix 3](#).

# Appendix 1

## Action plan 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Annual Governance Statement</b></p> <p>The annual accounts and report provided for audit included the 2018/19 annual governance statement. There was also an increased number of presentational issues within the unaudited annual report and accounts in comparison to previous years.</p> <p><b>Risk</b> - The audit is delayed due to the absence of comprehensive complete reports and this could delay the audit and/or impact on the issuing of the independent auditor certificate.</p>	<p>If remote working continues we would recommend finance officers develop a project plan for the preparation and drafting of the annual report and accounts which builds in quality review arrangements.</p> <p><a href="#">Exhibit 3, Point 1</a></p>	<p>Remote working linked with unprecedented workload due to the Covid pandemic led to some parts of the accounts taking longer to complete than usual. Creative Scotland demonstrated significant flexibility and compromise throughout the 2019/20 audit process.</p> <p>Director of Finance September 2021</p>
2	<p><b>Asset existence</b></p> <p>Our planned audit approach includes work to obtain assurances around the existence of assets. In March 2020 Creative Scotland purchased laptops to enable staff to work remotely whilst the offices were closed. We planned to select a sample of laptop serial numbers and request photographic evidence to confirm existence. We were advised that no record has been created of what laptop is held by each employee as they were shipped directly to employees from the warehouse. We have not been able to obtain assurance around the existence of these assets.</p> <p><b>Risk</b> - The underlying fixed asset records are incomplete.</p>	<p>Procedures should be established to record all assets owned by Creative Scotland. Asset records should include the make and model of the asset and the unique serial number identifier along with details of portable assets held by staff working from home.</p> <p><a href="#">Exhibit 3, Point 3</a></p>	<p>The laptops (costing £550 each) were issued in an emergency situation. As all staff have one machine then they are being controlled at the staff member level with any leaver requiring their laptop to be returned. Once office working resumes further controls will be implemented.</p> <p>June 2021 IT Manager</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
3	<p><b>Development Funds held in locked box</b></p> <p>The National Lottery Distribution Fund have a year-end trade receivable and payable of £50,844 relating to an invoice raised for the payment of development funds in a locked box. The invoice was raised to a third party rather than the grant recipient. No payment has been received from the third party.</p> <p>Officers have confirmed that the grant recipient in question has received further film award funding in 2019/20.</p> <p><b>Risk</b> – Contracts are not honoured, and appropriate funds are <b>not</b> returned due to invoices being raised to the wrong organisation or individual.</p>	<p>Officers should ensure that invoices are raised to the correct individual or organisation. Consideration should also be given as to whether funding decisions should be influenced by outstanding issues from previous funding agreements.</p> <p><a href="#">Exhibit 3, Point 4</a></p>	<p>Legal action to recover the debt is ongoing.</p> <p>Finance Manager</p> <p>March 2021</p>
4	<p><b>Untaken leave accrual</b></p> <p>IAS 19 states that ‘when an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service: (a) as a liability (accrued expense), after deducting any amount already paid’.</p> <p>Audit Scotland technical guidance note requires auditors to evaluate whether the untaken leave accrual includes employer’s national insurance and pension contributions as well as salary costs.</p> <p>The calculation of untaken leave within the Creative Scotland accounts deducts employees holiday entitlement from the available working days which increases the daily annual rate. Furthermore, the accrual calculation does not</p>	<p>The untaken leave accrual should be calculated in line with the appropriate technical guidance.</p> <p><a href="#">Exhibit 3, Point 7</a></p>	<p>Agreed, noting that 1 item offsets the other.</p> <p>Finance Manager</p> <p>31 March 2021</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>take account of national insurance and pension costs.</p> <p><b>Risk</b> – the untaken leave accrual is misstated</p>		
5	<p><b>Internal audit recommendations</b></p> <p>Internal audit recommendations are not consistently addressed prior to reaching their agreed action date.</p> <p><b>Risk</b> – Improvement actions required to address control weaknesses identified by internal audit are not realised within required timescales.</p>	<p>Officers should act to ensure that Internal Audit recommendations are actioned in accordance with agreed timescales.</p> <p><a href="#">Paragraph 43</a></p>	<p>Agreed</p> <p>Director of Finance</p> <p>March 2021.</p>
6	<p><b>Fraud Arrangements</b></p> <p>The Fraud Management and Gifts and Hospitality Policy have not been updated since 2017.</p> <p>Planned staff training over procurement fraud related issues during 2019/20 was delayed as a result of Covid-19.</p> <p><b>Risk</b> - Policies do not adequately address the evolving nature of risks relating to fraud and corruption.</p> <p>There is a risk that staff do not have updated knowledge and experience of procurement fraud related issues, which may particularly relevant with the changing Covid-19 landscape.</p>	<p>Policies relating to the prevention and detection of fraud and corruption should be reviewed and updated on a regular basis to ensure they adequately address the evolving nature of risk relating to fraud and corruption.</p> <p>Staff should be provided with relevant and up to date procurement fraud related training.</p> <p><a href="#">Paragraph 51 and 54</a></p>	<p>Agreed policies will be reviewed.</p> <p>Spend driven by procurement is a very small part of Creative Scotland spend and Finance are fully aware of the evolution of fraudulent/corrupt practice.</p> <p>Finance Manager</p> <p>March 2021</p>
7	<p><b>Financial Planning</b></p> <p>Creative Scotland do not prepare medium-term or longer-term financial plans. Creative Scotland may benefit from developing and implementing a medium-term and longer-term financial plan.</p>	<p>Creative Scotland should consider developing and implementing medium to longer-term financial plans.</p> <p><a href="#">Paragraph 58</a></p>	<p>Financial Plans for the current and subsequent 4 years are discussed at Executive and Board level as part of the annual budgeting setting process. This will continue in 2021/22.</p> <p>Director of Finance</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p><b>Risk</b> - In the absence of longer-term financial plans Creative Scotland may not be able to direct and control its finances efficiently.</p>		
8	<p><b>Openness and Transparency</b></p> <p>Board and other committee meetings are held in private. Creative Scotland publishes approved Board minutes on the website, but no Board or other committee papers are available. With increasing expectations for openness in the conduct of public business, Creative Scotland should continue to regularly revisit this area to ensure the public has access to relevant information.</p> <p><b>Risk</b> - Creative Scotland could be perceived to operate in a manner that is not open and transparent, leading to reputational damage.</p>	<p>There is scope for Creative Scotland to improve transparency by making further Board and committee information available to the public.</p> <p><a href="#">Paragraph 74</a></p>	<p>This will be presented to the Chair for consideration.</p> <p>Chief Executive</p> <p>March 2021</p>
<b>Follow up of prior year recommendations</b>			
9	<p><b>Performance Reporting</b></p> <p>The Financial Reporting Manual requires audited bodies to disclose within the statement of accounts information on its key performance measures and how it measures performance against those. An interim approach was agreed for 2018/19, however, arrangements need to be put in place to identify key performance indicators and collate reporting information for these within the 2019/20 annual accounts timescales.</p> <p><b>Risk</b> - There is a risk that the statement of accounts does not fully comply with the reporting framework.</p>	<p>Officers should enhance the reporting of performance within the statement of accounts to comply with the reporting framework. Performance is disclosed in the Annual Review published later in the year. Staff should arrange to gather data on key performance indicators earlier to permit incorporation in the Annual Report and Accounts.</p>	<p><b>Outstanding – deferred to 2020/21 due to Covid 19 pandemic.</b></p> <p>The 2020/21 annual report and accounts provide increased performance reporting and further enhancements will be considered for 2021/22.</p> <p>Finance Manager</p> <p>November 2021</p>
10	<p><b>Gender breakdown of employees</b></p>	<p>Officers should put in place arrangement to record and report all disclosures required</p>	<p><b>Complete</b></p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>The Financial Reporting Manual (FRM) requires a breakdown of employee groups by gender. The disclosure within the Remuneration and Staff Cost Report does not include the Chair and other non-executive board members.</p> <p><b>Risk</b> - There is a risk that the statement of accounts does not fully comply with the reporting framework.</p>	<p>for the publication of the accounts.</p>	
11	<p><b>General Data Protection Requirements</b></p> <p>Employers are required to obtain advise individuals in advance of personal data such as salaries and pensions being disclosed. During the audit process, we noted that this notification had still not been issued to all individuals disclosed in the unaudited remuneration report.</p> <p><b>Risk</b> - There is a risk that Creative Scotland does not comply with General Data Protection Requirements.</p>	<p>Officers should timetable the process of advising individuals of the personal data being included within the annual report and accounts earlier in the account's preparation process.</p>	Complete
12	<p><b>Trade Union Relations Disclosure</b></p> <p>The Remuneration Report includes a disclosure for Trade Union Relations in line with the Trade Union (Facility Time Publications Requirements) Regulations 2017. Some information was outstanding in the unaudited accounts. The Regulation also requires publication of this information on the website by 31 July 2019 and this deadline has not been met.</p> <p><b>Risk</b> - There is a risk that Creative Scotland fail to meet their reporting obligations in respect of Trade Union disclosures.</p>	<p>Finance and HR staff should ensure that procedures in place enable future reporting requirements to be met, both in the statement of accounts and through publication on the Creative Scotland website.</p>	<p><b>This information was not published on the website by 31 July.</b></p> <p>Agreed</p> <p><b>Finance Manager HR Manager</b></p> <p><b>31 March 2021</b></p>
13	<p><b>Grant Management System</b></p> <p>Our audit work on the grant management system identified</p>	<p>Officers should consider enhancing the application form to include details of company</p>	<p>Agreed As part of the funding review we will consider</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>some enhancements around the details requested on the application form around company ownership and conflicts of interest. It also identified a misclassification of a company.</p> <p><b>Risk</b> - There is a risk that conflicts of interest are not known at the time of assessing a funding application.</p>	<p>ownership and declarations of interest. Officers should remind staff of the need for correct classification of companies within the system.</p>	<p>requiring applicants to provide company ownership details for companies limited by shares (who make up c.4% of current applicants) and requiring all applicants to declare any conflicts interest relating to the proposed funded activity.</p> <p>Director of Finance April 2021</p>
14	<p><b>Internal Audit Recommendations</b></p> <p>There are several Internal Audit recommendations dating to the 2017/18 follow up review that have not been implemented within agreed timescales.</p> <p><b>Risk</b> - There is a risk that improvement actions to address control weaknesses identified by internal audit are not realised with required timescales.</p>	<p>Officers should act to ensure that Internal Audit recommendations are actioned in accordance with agreed timescales.</p>	Complete
15	<p><b>Financial sustainability</b></p> <p>Any decrease in future funding levels from the Scottish Government and/or falling sales from the National Lottery may adversely impact on Creative Scotland's ability to fund projects in the future or to achieve key priorities and outcomes.</p> <p><b>Risk</b> - There is a risk that reduced funding will negatively impact on Creative Scotland's ability to deliver priorities and ambitions.</p>	<p>Creative Scotland should continue to closely monitor funding allocations and consider the most efficient and effective ways to deliver its objectives and priorities with potentially decreasing resources.</p>	<p><b>Outstanding</b></p> <p>Agreed</p> <p><b>Director of Finance</b></p> <p><b>Ongoing</b></p>
16	<p><b>Transparency</b></p> <p>Board minutes have not been posted on the Creative Scotland website promptly following approval.</p> <p><b>Risk</b> - There is a risk that Creative Scotland is perceived to operate in a manner that is not open and transparent,</p>	<p>Creative Scotland should ensure that minutes of board meetings and other strategic documents are available for public review via the website promptly following approval.</p>	Complete



No.	Issue/risk	Recommendation	Agreed management action/timing
	leading to reputational damage.		
17	<p><b>Performance Targets</b> Performance indicators are measured against baseline outcomes from prior years rather than against forward looking targets.</p> <p><b>Risk</b> - There is a risk that without setting targets Creative Scotland cannot fully measure the impact it has in delivering ambitions and priorities.</p>	Creative Scotland should identify those performance indicators for which meaningful targets can be set and against which performance can be assessed.	<p><b>Outstanding</b> Performance indicators for 2020/21 have not been updated due to the ongoing funding review. This will be considered as part of the 2021/22 plan.</p> <p><b>Chief Executive</b> <b>April 2021</b></p>



# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating to our wider responsibility under the [Code of Audit Practice 2016](#).

**Add in any additional audit risks arising from COVID-19 along with any new 'standard risks' identified in the revised 2019/20 Audit Planning Guidance**

### Risks of material misstatement in the financial statements

<p><b>1 Risk of material misstatement caused by management override of controls</b></p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Detailed testing of grant income and expenditure to ensure this has been accounted for appropriately.</li> <li>• Review of the apportionment of costs and accounting estimates for reasonableness</li> <li>• Focussed testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> <li>• Cut off testing.</li> </ul>	<p><b>Results:</b> No unusual or inappropriate transactions were identified as part of our detailed journal testing.</p> <p>Grant testing of income and expenditure has not identified any accounting issues.</p> <p>Apportionment of costs were consistent with the recharge policy.</p> <p>Focussed testing on accruals and prepayments did not identify any instances of management override of controls.</p> <p>As part of our substantive testing we consider whether transactions were within the normal course of business. When selecting samples, we reviewed ledger or transaction listings for any transactions that were outside the normal course of business. Our testing did not identify any issues.</p> <p><b>Conclusion: We did not identify any incidents of management override of controls.</b></p>
<p><b>2 Risk of material misstatement caused by fraud in expenditure</b></p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. Most of the expenditure within CS &amp; CSNLDF relates to grants and the nature of this expenditure represents a risk of material</p>	<ul style="list-style-type: none"> <li>• Walk through testing of controls in place within the grant management system.</li> <li>• Detailed substantive testing of grant expenditure.</li> </ul>	<p><b>Results:</b> Grant management system walk through of controls work is incomplete.</p> <p>Recognition of expenditure in the financial statements was in accordance with accounting standards. However, some contract information around grants remains outstanding.</p>

misstatement in the financial statements.

**Conclusion: We have not been able to conclude on this risk due to the grant management system information remaining outstanding.**

### 3 Estimation and Judgements

A significant and material judgement is made over the estimation of grants outstanding at the financial year end. We recognise that this estimation represents a risk of material misstatement in the financial statements.

- Detailed substantive testing of grant expenditure
- Focussed testing of year end estimates and assumptions.

**Result:** The grant expenditure testing has not yet been concluded due to information remaining outstanding.

Year-end review and testing of estimates and assumptions did not identify any material misstatements within the annual accounts.

**Conclusion: We have not been able to conclude on this risk due to the grant management system information remaining outstanding.**

### 4 Performance Report

The Government Financial Reporting Manual (FReM) requires audited bodies to disclose within the statement of accounts information on its key performance measures and how it measures performance against those. The 2018/19 performance report did not outline the targets by which CS & CSNLDF intend to assess performance.

There is a risk that CS & CSNLDF fail to meet the reporting obligations required by FReM.

- Review of the Performance report to assess compliance with the FReM.

**Result:** The 2019/20 Annual Report and Accounts includes details of the organisation's outcomes and performance measures for their five ambitions.

The March Audit and Risk Committee agreed improvements to the key performance indicators identified and reporting within the annual report and accounts. However, this was deferred until next year, due to a decision to adapt the FReM Appendix issued in response to the pandemic.

**Conclusion: The current disclosures are in line with the FReM Appendix issued in response to the pandemic which permits a reduction in performance disclosures required in 2019/20.**

## Risks identified from the auditor's wider responsibility under the Code of Audit Practice

### 4 Financial sustainability

The National Lottery Funding received by CSNLDF is expected to decrease in the long term. The Scottish Government have previously increased grant in aid funding to offset any reduction in lottery funding, however, additional grant in aid funding may not always be available.

There is therefore a risk regarding long term

- Monitor and review CS & CSNLDF management accounts.
- Review of longer term financial and savings plans.

**Results:** Reviewed the management accounts prepared to the Finance and General Purposes committee on a regular basis to monitor the ongoing financial position.

Reviewed the financial plan for 2019/20 which includes projections to 2022/23.

**Conclusion: The annual budget for 2020/21 includes projections to 2022/23. This includes assumptions on long**

sustainability and CS & CSNLDF will need to ensure appropriate budget monitoring and financial planning are in place.

**term funding from the Scottish Government and from the National Lottery fund.**

**Management accounts were found to be subject to regular review by the Senior Leadership Team and by the Finance and General Purposes committee.**

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# Appendix 3

## Summary of national performance reports 2019/20

		 <b>2019/20 Reports</b>	
		Apr	
Social security: Implementing the devolved powers		<b>May</b>	
Scotland's colleges 2019		<b>Jun</b>	 Enabling digital government
		Jul	
NHS workforce planning - part 2		<b>Aug</b>	
Finances of Scottish universities		<b>Sept</b>	
NHS in Scotland 2019		<b>Oct</b>	
		Nov	
Local government in Scotland: Financial overview 2018/19		<b>Dec</b>	
Scotland's City Region and Growth Deals		<b>Jan</b>	 Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		<b>Mar</b>	 Early learning and childcare: follow-up

### Central Government relevant reports

[Social security: Implementing the devolved powers](#) – May 2019

[Enabling digital government](#) – June 2019

[Scotland's City Region and Growth Deals](#) – October 2019

[Privately financed infrastructure investment: The Non-Profit Distributing \(NPD\) and hub models](#) – Jan 2020

[Early learning and childcare: follow-up](#) – March 2020

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## 2019/20 Annual Audit Report

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